



Dear Valued Ocean Key Owner Association Member,

The Report includes the following information:

1. The full legal name of the time-share project and its addresses;
2. The full legal name of the Association;
3. Names and mailing addresses of the members of the Association's Board of Directors and the name of the person who prepared the report;
4. The managing entity's name, address, and contact person for the project;
5. A statement of whether or not the developer control period has terminated for the time-share estate project;
6. Financial statements of the Association audited by an independent certified public accounting firm of the Association;
 - a. Balance Sheets for the years 2022 and 2023.
 - b. Statements of Revenue and Expenses for the years ending 2022 and 2023.
 - c. Statements of the net changes in the financial position of the Association for the years ended 2022 and 2023.
7. Statements on the following;
 - a. Time-share estates occupancy expenses.
 - b. The regular assessment.
 - c. Any special assessments or other charges due for the current year from each time-share owner.
8. A copy of the current budget reflecting the anticipated time-share estate occupancy expenses along with:
 - a. A statement as to who prepared the budget.
 - b. A statement of the budgetary assumptions concerning occupancy factors.
 - c. A description of any provision made in the budget for reserve for repairs and replacement.
 - d. A statement of any other reserves.
 - e. The projected financial liability for each time-share estate owner, including a statement of: (i) the nature of all charges, assessments, maintenance fees, and other expenses which may be assessed, (ii) the current amounts assessed, and (iii) the method and formula for changing any such assessments.

f. A statement of any services not reflected in the budget that the developer provides or expenses it pays, that it expects may become a time-share expense assessment attributable to each of those services or expenses for the Association and for each time-share.

9. A statement of the location of the books and records of the Association along with the name and contact address of the custodian of such books and records.

Ocean Key Owners Association
Company Information

| <u>Description</u> | <u>Legal Name</u> | <u>Address</u> |
|-----------------------------|-------------------------------------|--|
| Time-share Project | Ocean Key Resort Time-Share Project | 424 Atlantic Avenue Virginia Beach, VA 23451 |
| Association | Ocean Key Owners Association | 424 Atlantic Avenue Virginia Beach, VA 23451 Attn: Joe Cantrell, President |
| Managing Entity | VSA Management Corp. | P.O. Box 9295 Virginia Beach, VA 23450 Attn: Mary McGregor Hospitality Department |
| Location of Books & Records | Ocean Key Owners Association | 2829 Guardian Lane, #220 Virginia Beach, VA 23452 Attn: Joe Cantrell, President |

Ocean Key Owners Association
Board of Directors

| <u>Name</u> | <u>Office or Principal Occupation</u> | <u>Address</u> |
|----------------|---|--|
| Joe Cantrell | Ocean Key Owners Association President | 2829 Guardian Lane, #220 Virginia Beach, VA 23452 |
| Michael Taylor | Ocean Key Owners Association Treasurer | 2829 Guardian Lane, #220 Virginia Beach, VA 23452 |
| Scott Weber | Ocean Key Owners Association Secretary | 2829 Guardian Lane, #220 Virginia Beach, VA 23452 |


The Annual Report was prepared by the accounting team of VSA Management Corp.



Ocean Key Owners Association

Independent Auditor's Report, Financial Statements, and Supplementary Information

December 31, 2023 and 2022



Ocean Key Owners Association
Contents
December 31, 2023 and 2022

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Independent Auditor's Report

Board of Directors
Ocean Key Owners Association
Virginia Beach, Virginia

Opinion

We have audited the accompanying financial statements of Ocean Key Owners Association, which comprise the balance sheet as of December 31, 2023, and the related statements of revenues and expenses, changes in fund balances, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ocean Key Owners Association as of December 31, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Ocean Key Owners Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Ocean Key Owners Association's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Ocean Key Owners Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Ocean Key Owners Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Future Major Repairs and Replacements (Unaudited) on page 15 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Summarized Comparative Information

We have previously audited Ocean Key Owners Association's 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 9, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2023, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Forvis Mazars, LLP

Norfolk, Virginia
July 2, 2024

Ocean Key Owners Association
Balance Sheets
December 31, 2023 with Comparative Totals for 2022

| | <u>Operating Fund</u> | <u>Reserve for Replacement Fund</u> | <u>2023 Total</u> | <u>2022 Total</u> |
|---|----------------------------|---|----------------------------|----------------------------|
| ASSETS | | | | |
| Current Assets | | | | |
| Cash and cash equivalents | \$ 1,885,143 | \$ 1,444 | \$ 1,886,587 | \$ 1,952,131 |
| Accounts receivable, net of allowance for credit losses of \$805,872 at December 31, 2023 | 139,162 | - | 139,162 | 123,277 |
| Due from related parties | 456,119 | - | 456,119 | 324,909 |
| Prepaid expenses | 89,569 | - | 89,569 | 129,904 |
| Other current assets | 3,052 | - | 3,052 | 3,052 |
| Interfund borrowings | <u>(735,305)</u> | <u>735,305</u> | <u>-</u> | <u>-</u> |
| Total current assets | 1,837,740 | 736,749 | 2,574,489 | 2,533,273 |
| Property and equipment, net | 8,141 | - | 8,141 | 15,508 |
| Investments | <u>2,521</u> | <u>-</u> | <u>2,521</u> | <u>2,521</u> |
| Total assets | <u><u>\$ 1,848,402</u></u> | <u><u>\$ 736,749</u></u> | <u><u>\$ 2,585,151</u></u> | <u><u>\$ 2,551,302</u></u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Current Liabilities | | | | |
| Accounts payable and accrued expenses | \$ 168,882 | \$ - | \$ 168,882 | \$ 93,088 |
| Due to related parties | 308,835 | - | 308,835 | 58,576 |
| Contract liabilities - prepaid owners' assessments | <u>1,196,982</u> | <u>-</u> | <u>1,196,982</u> | <u>1,296,471</u> |
| Total liabilities | 1,674,699 | - | 1,674,699 | 1,448,135 |
| Fund balance | <u>173,703</u> | <u>736,749</u> | <u>910,452</u> | <u>1,103,167</u> |
| Total liabilities and fund balance | <u><u>\$ 1,848,402</u></u> | <u><u>\$ 736,749</u></u> | <u><u>\$ 2,585,151</u></u> | <u><u>\$ 2,551,302</u></u> |

Ocean Key Owners Association
Statements of Revenues and Expenses
Year Ended December 31, 2023 with Comparative Totals for 2022

| | <u>Operating Fund</u> | <u>Reserve for Replacement Fund</u> | <u>2023 Total</u> | <u>2022 Total</u> |
|--|---------------------------|---|-----------------------|-----------------------|
| Revenues | | | | |
| Owner assessments | \$ 3,062,609 | \$ 413,145 | \$ 3,475,754 | \$ 3,384,260 |
| Room rental income | 388,473 | - | 388,473 | 313,549 |
| Other income | 226,806 | - | 226,806 | 241,192 |
| Interest income | 20,635 | - | 20,635 | 30,311 |
| | <u>3,698,523</u> | <u>413,145</u> | <u>4,111,668</u> | <u>3,969,312</u> |
| Expenses | | | | |
| Property maintenance | 966,417 | 443,335 | 1,409,752 | 1,113,257 |
| Salaries and benefits | 663,306 | - | 663,306 | 664,643 |
| Office and administrative expenses | 579,634 | - | 579,634 | 611,464 |
| Utilities | 417,252 | - | 417,252 | 352,784 |
| Credit loss, net of recoveries | 378,052 | - | 378,052 | 251,644 |
| Insurance | 301,243 | - | 301,243 | 217,515 |
| Management fees | 295,250 | - | 295,250 | 283,482 |
| Supplies | 115,001 | - | 115,001 | 140,536 |
| Property taxes | 98,312 | - | 98,312 | 111,560 |
| Lease costs | 39,214 | - | 39,214 | 49,619 |
| Depreciation | 7,367 | - | 7,367 | 7,629 |
| | <u>3,861,048</u> | <u>443,335</u> | <u>4,304,383</u> | <u>3,804,133</u> |
| (Deficiency) excess of revenues over expenses | <u>\$ (162,525)</u> | <u>\$ (30,190)</u> | <u>\$ (192,715)</u> | <u>\$ 165,179</u> |

**Ocean Key Owners Association
Statements of Changes in Fund Balances
Years Ended December 31, 2023 and 2022**

| | Operating Fund | Reserve for Replacement Fund | Total |
|---|---------------------------|---|-------------------|
| Fund balance, December 31, 2021 | \$ 343,633 | \$ 594,355 | \$ 937,988 |
| (Deficiency) excess of revenues over expenses | (7,405) | 172,584 | 165,179 |
| Fund balance, December 31, 2022 | 336,228 | 766,939 | 1,103,167 |
| Deficiency of revenues over expenses | (162,525) | (30,190) | (192,715) |
| Fund balance, December 31, 2023 | <u>\$ 173,703</u> | <u>\$ 736,749</u> | <u>\$ 910,452</u> |

Ocean Key Owners Association
Statements of Cash Flows
Year Ended December 31, 2023 with Comparative Totals for 2022

| | <u>Operating Fund</u> | <u>Reserve for Replacement Fund</u> | <u>2023 Total</u> | <u>2022 Total</u> |
|--|---------------------------|---|-----------------------|-----------------------|
| Operating Activities | | | | |
| (Deficiency) excess of revenues over expenses | \$ (162,525) | \$ (30,190) | \$ (192,715) | \$ 165,179 |
| Adjustments to reconcile to net cash used in operating activities: | | | | |
| Credit losses | 378,052 | - | 378,052 | 251,644 |
| Depreciation | 7,367 | - | 7,367 | 7,629 |
| Change in: | | | | |
| Accounts receivable | (393,937) | - | (393,937) | (279,468) |
| Prepaid expenses | 40,335 | - | 40,335 | (46,199) |
| Accounts payable and accrued expenses | 75,794 | - | 75,794 | 8,034 |
| Contract liabilities - prepaid owners' assessments | (99,489) | - | (99,489) | (195,326) |
| Net cash used in operating activities | <u>(154,403)</u> | <u>(30,190)</u> | <u>(184,593)</u> | <u>(88,507)</u> |
| Investing Activities | | | | |
| Borrowings from (loans to) related parties, net | 119,049 | - | 119,049 | (353,423) |
| Purchase of property and equipment | - | - | - | (3,002) |
| Net cash provided by (used in) investing activities | <u>119,049</u> | <u>-</u> | <u>119,049</u> | <u>(356,425)</u> |
| Financing Activities | | | | |
| Interfund borrowings | <u>(30,191)</u> | <u>30,191</u> | <u>-</u> | <u>-</u> |
| Net Change in Cash and Cash Equivalents | (65,545) | 1 | (65,544) | (444,932) |
| Cash and Cash Equivalents, Beginning of Year | <u>1,950,688</u> | <u>1,443</u> | <u>1,952,131</u> | <u>2,397,063</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 1,885,143</u> | <u>\$ 1,444</u> | <u>\$ 1,886,587</u> | <u>\$ 1,952,131</u> |

Note 1. Organization and Business

Ocean Key Owners Association (“Owners Association”) is a timeshare estate owners’ association organized as a nonprofit organization for the purpose of maintaining and preserving the common property of Ocean Key Resort (“Resort”). Ocean Key Resort is a timeshare conversion project having initially been constructed in 1988 as a hotel. The timeshare project exists on a parcel of land located in Virginia Beach, Virginia, which consists of a multi-story building containing 142 individual units and various ancillary facilities. Membership in the Owners Association consists of two classes - Class A member, Vacation Sales Associates, L.L.C. (“Developer”), and class B members, which consist of all timeshare owners, including the Developer. The Developer owned 1,627 unit-weeks at December 31, 2023, which approximates 31 units. The Developer owned 1,360 unit-weeks at December 31, 2022, which approximates 26 units. The Developer control period ended November 1, 2001. Therefore, the Developer has no future obligations to fund operating and maintenance expenses.

Note 2. Summary of Significant Accounting Policies

Basis of Accounting

The Owners Association prepares its financial statements on the accrual basis and presents them as separate funds based on its different funding policies for operations and replacement expenditures.

Fund Accounting

Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating fund - The operating fund reflects the operating portion of annual assessments paid by the unit-week owners to meet the various day-to-day expenditures incurred in the administration and operation of the Owners Association and recreational facilities.

Reserve for replacement fund - The reserve for replacement fund is composed of the portion of the annual assessments designated in the budget to fund future major repairs and replacements.

Adoption of New Accounting Principle

Effective January 1, 2023, the Company adopted ASU 2016-13, Financial Instrument – Credit Losses (“Topic 326”), Measurement of Credit Losses on Financial Instruments related to the impairment of financial instruments. This guidance, commonly referred to as Current Expected Credit Loss (“CECL”), changes impairment recognition to a model that is based on expected losses rather than incurred losses. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including accounts receivable. There was no material impact on the financial statements upon adoption of the guidance on January 1, 2023.

Cash and Cash Equivalents

The Owners Association considers all highly liquid investments with a remaining maturity of three months or less at the time of purchase to be cash equivalents. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

Accounts Receivable and Allowance for Credit Losses

Accounts receivable consists of unpaid assessments from owners, which are stated net of an allowance for credit losses. The Owners Association evaluates such receivables for impairment due to the age of their relative balances using historical collection information and existing economic conditions adjusted for current conditions and reasonable and supportable forecasts, and provides for losses on accounts receivable through a provision for credit losses. Accounts over 90 days are considered past due. The allowance is an amount management believes will be adequate to absorb probable losses on existing receivables. Receivables are charged off against the allowance when they are deemed uncollectable by management. Accounts receivable, net of allowance at January 1, 2022 were \$95,453.

Property and Equipment

The Owners Association does not capitalize common real property. Common real property includes property that is directly associated with units (i.e., property without which the units could not be occupied, including exterior property and public areas). Common real property also includes property that is not directly associated with a unit, such as recreational facilities, although individual unit owners may benefit from its use.

The Owners Association does not capitalize personal property that is directly associated with units, such as room furnishings. The Owners Association does capitalize personal property and equipment not directly associated with units to which it has title, or other evidence of ownership such as recreational equipment and vehicles.

Property and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives, which range as follows:

| | |
|------------------------|-------------|
| Equipment | 5 - 7 years |
| Vehicle | 5 years |
| Software | 3 years |
| Furniture and fixtures | 5 - 7 years |
| Leasehold improvements | 7 years |
| Building | 7 years |

Investment in LLCs

The Owners Association accounts for its investment in unconsolidated affiliates by the equity method. The Owners Association records its share of such earnings (loss) in the Statements of Revenues and Expenses as "Other income" and the carrying value of the Owners Association's investment in unconsolidated affiliates is recorded in the balance sheets as "Investments."

Revenue Recognition

Owner assessments

Owner assessments revenue (undesignated and designated for future repairs and replacements) is billed annually in the amount of the assessment allocation specified for the current year operations based on the annual budget adopted by the Board of Directors. Annual owner assessments charged to owners are recognized ratably into revenue over the year to which they apply as the performance obligation (maintaining the resort and units to be available for owner use) related to owner assessments revenue is accomplished ratably throughout the year. Revenue is therefore recognized over time, on the output method, based on the passage of time with 1/12th of the annual owner assessments being recognized into revenue each month as the year progresses. Owner assessments revenue also includes buyback fees, which are recognized at a point in time.

**Ocean Key Owners Association
Notes to Financial Statements
December 31, 2023 and 2022**

Room rental income

Room rental revenue is recorded over time, ratably over the period of the guests stay as the performance obligation (providing a unit to renter) is accomplished over the time period the unit has been rented. The Owners Association rents unit-weeks that are not used by the owners to other individuals on a per night basis. The Owners Association collects all rents and pays costs associated with renting the rooms, including marketing costs.

Beginning in 2023, the Owners Association no longer receives room rental revenue from third party guests but instead receives a reimbursement from the related party booking agency to cover cleaning costs and resort fees. Cleaning fees are recorded over time, ratably over the period of the guests stay while resort fees are recorded at a point in time.

Other income

Other income consists of a variety of guest fees and charges where revenue is recognized at a point in time, when the transaction is completed as the performance obligation is accomplished immediately.

Other income also includes a cell tower lease, which is recognized straight line over the term of the lease.

Disaggregation of Revenue from Contracts with Customers

The following table disaggregates the Owners Association's revenue based on the timing of satisfaction of performance obligations for the years ended December 31:

| | <u>2023</u> | <u>2022</u> |
|--|---------------------|---------------------|
| Performance obligations satisfied over time | \$ 3,731,160 | \$ 3,508,573 |
| Performance obligations satisfied at a point in time | <u>380,508</u> | <u>460,739</u> |
| | <u>\$ 4,111,668</u> | <u>\$ 3,969,312</u> |

Performance Obligations

Contracts are generally considered to be a single performance obligation due to the Owners Association's ability and requirement under contract to provide a deliverable of goods and services that are innately integrated and interdependent upon one another. In certain situations, the Owners Association is delivering a series, or group, of integrated products that are substantially the same but otherwise distinct in value and under the terms of the contract. In these situations, the contract is treated as a single performance obligation.

Variable Consideration

There are no variable consideration or significant costs to obtain contracts.

Contract Liabilities

Owners are billed annually in November for assessment fees for the subsequent period. The liability "Contract liabilities – prepaid owners' assessments" represents assessments from owners paid in advance of their timeshare week. Contract liabilities at January 1, 2022 were \$1,491,797.

Advertising Costs

Advertising costs are charged to operations as incurred and were \$1,880 and \$9,569 for 2023 and 2022, respectively.

Lease Costs

The Owners Association determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of right-of-use (“ROU”) assets and lease liabilities on the balance sheets. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The Owners Association determines lease classification as operating or finance at the lease commencement date. The Owners Association has elected not to record leases with an initial term of 12 months or less on the balance sheets. Lease expense on such leases is recognized on a straight-line basis over the lease term. At December 31, 2023 and 2022, the Owners Association determined that there were no leases that required recognition of a ROU asset or lease liability.

Income Taxes

The Owners Association has elected to file its income tax return as a homeowners’ association in accordance with Internal Revenue Code Section 528. Under that Section, the Owners Association is not taxed on uniform assessments to members and other income received from Owners Association members solely as a function of their membership in the Owners Association. The Owners Association is taxed at the rate of 32% on its investment income and other nonexempt function income.

Concentration of Credit Risk

Financial instruments that potentially subject the Owners Association to concentration of credit risk consist of cash transactions accounts and accounts receivable.

The Owners Association places its cash transaction accounts with high credit quality financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (“FDIC”). At times, the Owners Association places deposits in financial institutions that may be in excess of federally insured amounts. The Owners Association has not experienced any financial loss related to such deposits.

Risk related to accounts receivable from owners is somewhat limited due to the large number of owners involved. The unit owners are required to pay all outstanding maintenance fees before use of the unit is permitted.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and may have an impact on future periods.

Significant estimates required in the preparation of the Owners Association’s financial statements include allowance for credit losses. Due to the material nature of these estimates, variances from the estimates could result in material changes to actual results.

Comparative Information and Reclassification

The financial statements include certain prior year summarized comparative information in total but not by fund. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Owners Association’s detailed financial statements for 2022 from which the summarized information was derived.

Certain reclassifications have been made to the 2022 financial statements to conform to the 2023 financial statement presentation. These reclassifications had no effect on net earnings.

Ocean Key Owners Association
Notes to Financial Statements
December 31, 2023 and 2022

Subsequent Events

In preparing these financial statements, the Owners Association has evaluated events and transactions for potential recognition or disclosure through July 2, 2024, the date the financial statements were available to be issued.

Note 3. Property and Equipment

Property and equipment consisted of the following at December 31:

| | <u>2023</u> | <u>2022</u> |
|--------------------------|------------------|------------------|
| Equipment | \$ 69,191 | \$ 69,191 |
| Vehicle | 2,728 | 2,728 |
| Software | 64,226 | 64,226 |
| Furniture and fixtures | 1,695 | 1,695 |
| Leasehold improvements | 13,395 | 13,395 |
| Building | <u>1,280</u> | <u>1,280</u> |
| | 152,515 | 152,515 |
| Accumulated depreciation | <u>(144,374)</u> | <u>(137,007)</u> |
| | <u>\$ 8,141</u> | <u>\$ 15,508</u> |

Depreciation expense was \$7,367 and \$7,629 for 2023 and 2022, respectively.

Note 4. Investment in LLCs

In August 2011, the Owners Association and another unrelated entity formed Ocean Water, LLC (“OW”) with the purpose of leasing and managing real estate as an overflow parking lot (“Lot”). Each member has 50% ownership in the OW and will be responsible for expenses related to the Lot.

In December 2016, the Owners Association and two other entities formed OSKAR, LLC (“OSKAR”) with the purpose of providing housekeeping services. Each member has a 33.3% ownership in OSKAR.

The following summarizes the activity in the LLCs in 2023:

| | <u>OW</u> | <u>OSKAR</u> |
|--|-------------|--------------|
| Total assets | \$ 39,995 | \$ 555,571 |
| Total liabilities | \$ (30,981) | \$ (547,873) |
| Members' (equity) deficit | \$ (9,014) | \$ (7,698) |
| Revenues | \$ 26,812 | \$ 315,835 |
| Expenses | \$ (26,812) | \$ (315,835) |
| Net income (loss) | \$ - | \$ - |
| Advances to LLCs by Owners Association | \$ 33,007 | \$ 148,033 |

**Ocean Key Owners Association
Notes to Financial Statements
December 31, 2023 and 2022**

The following summarizes the activity in the LLCs in 2022:

| | <u>OW</u> | <u>OSKAR</u> |
|--|-------------|----------------|
| Total assets | \$ 11,107 | \$ 398,099 |
| Total liabilities | \$ (2,093) | \$ (390,401) |
| Members' (equity) deficit | \$ (9,014) | \$ (7,698) |
| Revenues | \$ 28,235 | \$ (1,355,409) |
| Expenses | \$ (28,235) | \$ 1,355,409 |
| Net income (loss) | \$ - | \$ - |
| Advances to LLCs by Owners Association | \$ 2,093 | \$ 208,564 |

Note 5. Reserve for Replacement Fund

The Owners Association's governing documents require that funds be accumulated for future major repairs and replacements. Such funds are accounted for in the replacement fund. Accumulated funds, which aggregate to a balance of \$736,749 and \$766,939 at December 31, 2023 and 2022, respectively, are held in separate accounts and are generally not available for normal operating expenses.

The Owners Association's Board of Directors estimated the remaining useful lives and the replacement costs of the components of common property. The estimates are based on a site inspection performed by a structural engineer in March 2014 and updated by management through December 31, 2023. Funding of such major repairs and replacements is being done over the estimated useful lives of components based on the study's estimates of current replacement cost. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, the Owners Association has the right, subject to member approval, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

Note 6. Owner Assessments

The annual assessment to owners in 2023 and 2022 ranged from \$535 to \$1,660 and \$490 to \$1,520, respectively, per timeshare week. Interest on late payments is recognized on assessments when paid by the timeshare owner.

At December 31, 2023, the Owners Association had received assessments of \$1,196,982 from owners in advance for calendar year 2024. At December 31, 2022, the Owners Association had received assessments of \$1,296,471 from owners in advance for calendar year 2023. These amounts are reflected as a contract liabilities – prepaid owners' assessments in the balance sheets.

Note 7. Related Party Transactions

Related parties include the Owners Association's management company ("VSA Management Corporation" and "Vacatia Management Services, Inc."), the Developer and its owner ("Vacatia"), housekeeping provider ("OSKAR"), overflow parking lot ("OW"), other owners' associations that share the same management company, Vacatia Travel Services, Inc which books travel accommodations for the Owners Association's guests, VSAH Management, and VSA Association Management which is an entity under common ownership.

Ocean Key Owners Association
Notes to Financial Statements
December 31, 2023 and 2022

In the normal course of business, these related parties may collect certain revenues on behalf of the Owners Association. Amounts due to the Owners Association are reflected as due from related parties on the balance sheets.

Expenses of the Owners Association include allocations from these related parties. These expenses relate to the daily operating activities of the Owners Association. Unpaid amounts are reflected as due to related parties on the balance sheets.

Amounts due from and due to related parties at December 31, 2023 and 2022 are as follows:

| | <u>2023</u> | <u>2022</u> |
|--------------------------------|-------------------|-------------------|
| Due from related party: | | |
| OSKAR | \$ 148,033 | \$ 208,564 |
| Ocean Sands Owners Association | 90,197 | 6,442 |
| Developer | 64,114 | - |
| Vacatia Travel Services | 57,840 | - |
| Atrium Owners Association | 55,565 | - |
| Ocean Water | 33,007 | 2,093 |
| VSA Association Management | 6,171 | - |
| VSAH Management | 1,131 | - |
| Dolphin Run Association | 11 | - |
| Vacanza | 50 | - |
| Vacatia | - | 107,411 |
| VSA Management Corporation | - | 399 |
| | <u>\$ 456,119</u> | <u>\$ 324,909</u> |
| Due to related party: | | |
| VSA Management Corporation | \$ 294,753 | \$ 48,120 |
| Vacatia | 10,987 | - |
| Vacatia Management | 3,095 | - |
| Developer | - | 8,114 |
| Atrium Owners Association | - | 2,342 |
| | <u>\$ 308,835</u> | <u>\$ 58,576</u> |

Payments to the management company are as follows:

| | <u>2023</u> | <u>2022</u> |
|--|-------------|-------------|
| Management fees | \$ 295,250 | \$ 283,482 |
| Resort revenue incentive fees (included net of room rental income) | \$ - | \$ 945,898 |
| Accounting fees (included in office and administrative expense) | \$ 137,124 | \$ 348,368 |

Payments received from Vacatia Travel Services included in room rental income are as follows:

| | <u>2023</u> | <u>2022</u> |
|---------------|-------------|-------------|
| Cleaning fees | \$ 311,775 | \$ - |
| Resort fees | \$ 75,208 | \$ - |

During 2023 and 2022, the Owners Association received \$0 and \$17,742, respectively, in rental income from the Developer.

**Ocean Key Owners Association
Notes to Financial Statements
December 31, 2023 and 2022**

During 2023 and 2022, the Owners Association paid \$121,919 and \$429,085, respectively, in housekeeping fees to OSKAR, which are included in property maintenance on the statements of revenues and expenses.

During 2023 and 2022, the Owners Association paid \$14,307 and \$14,265, respectively, in lease costs to the Developer for the use of office space, which is included in rentals and leases on the statements of revenues and expenses. There are no enforceable contracts for related party lease costs.

Note 8. Contingent Liabilities

The Owners Association is exposed to various asserted and unasserted potential claims encountered in the normal course of business. In the opinion of management, the resolution of these matters will not have a material effect on the Owners Association's financial position or the results of operations.

Note 9. Commitment

As of December 31, 2023, the Owners Association has a signed contract committing them to \$72,000 of work related to repairs and refurbishments within the property that is expected to be completed in 2024.

Supplementary Information

**Ocean Key Owners Association
 Future Major Repairs and Replacements (Unaudited)
 December 31, 2023**

The Owners Association's Board of Directors estimated the remaining useful lives and the replacement costs of the components of common property. The estimates are based on a site inspection performed by a structural engineer in March 2014 and updated by management through December 2023. Funding of such major repairs and replacements is being done over the estimated useful lives of components based on the study's estimates of current replacement costs.

The following table is based on the study and presents significant information about the components of common property:

| Components | Estimated Remaining Useful Lives (Years) | Estimated Future Replacement Costs | Replacement Fund Balance at December 31, 2023 |
|------------|---|---|--|
| Exteriors | 1 to 27 | \$ 922,395 | |
| Equipment | 1 to 29 | 4,226,764 | |
| | | \$ 5,149,159 | \$ 736,749 |

**Ocean Key Owners Association
2024 Budget**

Revenues

| | |
|---------------------------------|-------------|
| Maintenance Fees | \$3,720,118 |
| Room Cleaning Fees | \$304,500 |
| Late & Interest Fees/Surcharges | \$71,000 |
| Non-Member Fees | \$107,353 |
| Lease Income | \$66,660 |
| Other Income | \$31,825 |

Total Revenue **\$4,301,456**

Budget Prepared by Joe Cantrell, President 9/2023

The 2024 Budget assumes an average of 73% occupancy during 2024.

The 2024 Budget includes reserve expenditures of \$413,145.

The 2024 Budget includes several departmental revenues which offset expenses to owners and reduces maintenance costs. Additional reserve funding or special assessments were not included in the 2024 Budget.

The Ocean Key Owners Association is out of developer control.

There are no other services or expenses currently paid by the developer which are expected to become timeshare expenses to the Association at any subsequent time.

Expenses

| | |
|-----------------------------|-----------|
| Operational Expenses | \$908,725 |
| Housekeeping Support | \$818,016 |
| Reserves | \$482,729 |
| Maintenance & Unit Supplies | \$405,188 |
| Admin & General | \$352,096 |
| Utilities | \$437,978 |
| Property Management | \$360,512 |
| Bad Debt | \$324,461 |
| Insurance | \$309,094 |
| Taxes & Depreciation | \$10,800 |

Total Expenses **\$4,409,599**

October: Annual assessment fee statements and information letters are mailed.

January 1st: Annual Assessments are due each year.